



November 29, 2004

Elizabeth O'Donnell
Executive Director
Kentucky Public Service Commission
211 Sower Boulevard
P O Box 615
Frankfort, Kentucky 40602

Subject: KPSC Case No. 2004-00142
Interim Hedging Report

Dear Ms. O'Donnell:

Enclosed herein are one original and ten copies of Atmos Energy's interim hedging report for the 2004-2005 winter heating season as required by the Commission's Order dated July 20, 2004 in the above-referenced proceeding.

Please note the company has filed certain exhibits in the report under a petition for confidentiality.

Please contact me at your earliest convenience (270-685-8024) should the Commission or staff have any questions regarding the enclosed report.

Sincerely,

A handwritten signature in black ink that reads "Gary L. Smith".

Gary L. Smith
Vice President, Marketing & Regulatory Affairs

Enclosures

Cc: Elizabeth E. Blackford, Office of the Attorney General
Randy Hutchinson
Doug Walther

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COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

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IN THE MATTER OF:

The Interim Report of Atmos Energy Corporation on Its
Hedging Program for the 2004-2005 Heating Season

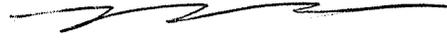
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) **2004-00142**
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**MOTION TO ACCEPT INTERIM REPORT OF HEDGING PROGRAM
FOR THE 2004-2005 HEATING SEASON**

Comes now, Atmos Energy Corporation ("Atmos Energy") and pursuant to Commission's Order of July 20, 2004, files herewith its interim hedging report for the 2004-2005 heating season identifying, inter alia, gas costs realized under Atmos' hedging program. Atmos Energy respectfully moves the Commission to accept the attached interim hedging report for the 2004-2005 heating season.

Respectfully submitted this 29th day of November, 2004.



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Owensboro, Kentucky 42303
(270) 926-5011

Douglas Walther
Atmos Energy Corporation
P.O. Box 650250
Dallas, Texas 75265
Attorneys for Atmos Energy

CERTIFICATE OF SERVICE

I hereby certify that on the 29 day of November 2004, the original Motion together with ten (10) copies, were filed with the Kentucky Public Service Commission, 211 Sower Boulevard, P.O. Box 615, Frankfort, Kentucky 40602, and a true copy thereof mailed by first class mail to the following named persons:

Hon. Elizabeth E. Blackford
Assistant Attorney Generals
Office of Rate Intervention
1024 Capitol Center Drive
Frankfort, Kentucky 40601



Mark R. Hutchinson

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

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COMMISSION

IN THE MATTER OF:

The Interim Report of Atmos Energy Corporation on Its Hedging Program for the 2004-2005 Heating Season) CASE NO.
) 2004-00142
)

**PETITION FOR CONFIDENTIALITY OF
SCHEDULES TO ATMOS'S INTERIM HEDGING REPORT**

Atmos Energy Corporation ("Atmos Energy"), respectfully petitions the Kentucky Public Service Commission ("Commission"), pursuant to 807 KAR 5:001, Section 7, and all other applicable law, for confidential treatment of the attached schedules to Atmos Energy's Interim Hedging Report for the 2004-2005 heating season.

1. On July 20, 2004 the Commission entered an Order in this proceeding approving Atmos Energy's hedging program for the 2004-2005 heating season. The Commission's Order further directed Atmos Energy to file an interim hedging report within thirty (30) days of November 1, 2004.

2. The attachments to this Petition contain sensitive pricing information and confidential information about Atmos Energy's hedging strategies. Atmos Energy's hedging strategies (including the prices Atmos Energy would likely pay for hedging contracts under various market conditions) constitutes sensitive, proprietary information which if publicly disclosed could put Atmos Energy at a commercial disadvantage in future hedging negotiations. Prospective brokers of hedging devices would gain insight into how Atmos Energy is likely to react to changing market conditions in terms of what

Atmos Energy might be willing to pay for hedging contracts. This information would not otherwise be available. Although the full extent to which Atmos Energy would be disadvantaged in future negotiations is difficult to predict, it is clear that Atmos Energy would likely be disadvantaged in future negotiations if the information contained in the attached schedules is made public.

3. Atmos Energy would not, as a matter of company policy, disclose information like that contained in the attached schedules to any person or entity, except as required by law or pursuant to a court order or subpoena. Atmos Energy's internal practices and policies are directed towards non-disclosure of the attached information. In fact, the information contained in the attached schedules is not disclosed to any personnel of Atmos Energy except those who need to know in order to discharge their responsibility. Atmos Energy has never disclosed such information publicly. This information is not customarily disclosed to the public and is generally recognized as confidential and proprietary in the industry. The Commission has historically granted Atmos Energy confidential protection to information concerning the actual price being paid by Atmos Energy to individual marketing companies and other suppliers of natural gas.

4. There is no significant interest in public disclosure of the information contained in the attached schedules. Any public interest in favor of disclosure of the information is out weighed by the competitive interest in keeping the information confidential.

5. The information contained in the attached schedules is also entitled to confidential treatment because it constitutes a trade secret under the two prong test of KRS 265.880: (a) the economic value of the information is derived by not being readily ascertainable by other persons who might obtain economic value by its disclosure and

(b) the information is the subject of efforts that are reasonable under the circumstances to maintain its secrecy. The economic value of this information is derived by Atmos Energy maintaining the confidentiality of the information since prospective brokers could obtain economic value by its disclosure.

6. Pursuant to 807 KAR 5:001, Section 7 (3), temporary confidentiality of the attached schedules should be maintained until the Commission enters an order as to this Petition. Once the order regarding confidentiality has been issued, Atmos Energy would have twenty (20) days to seek alternative remedies pursuant to 807 KAR 5:0001, Section 7 (4).

7. By letter dated April 22, 2004, the Commission, in this proceeding, granted confidential protection to the same type of information for which confidential protection is now requested.

WHEREFORE, Atmos Energy petitions the Commission to treat as confidential the attached schedules consisting of three pages and marked as "CONFIDENTIAL".

Respectfully submitted this 29 day of November, 2004.



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Attorneys for Atmos Energy

VERIFICATION

I, Gary L. Smith, being duly sworn under oath state that I am Vice President of Marketing and Regulatory Affairs for Atmos Energy Corporation, and that the statements contained in the foregoing Petition are true as I verily believe.



Gary L. Smith

CERTIFICATE OF SERVICE

I hereby certify that on the 29 day of November, 2004, the original of this Petition, with the Confidential Information for which confidential treatment is sought, together with ten (10) copies of the Petition without the confidential information, were filed with the Kentucky Public Service Commission, 211 Sower Boulevard, P.O. Box 615, Frankfort, Kentucky 40602,



Mark R. Hutchinson

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PUBLIC SERVICE
COMMISSION

ATMOS ENERGY CORPORATION
KENTUCKY DIVISION
INTERIM HEDGING REPORT
CASE NO. 2004-00142

The Kentucky Public Service Commission ("Commission") requested in its Order in Case No. 2004-00142 that Atmos Energy Corporation ("Company") provide the Commission with an interim hedging report within thirty days following November 1, 2004. The report is to follow the requirements established in previous Cases pertaining to Atmos Energy's hedging programs, providing "a brief narrative discussion of the factors that influenced the Company's purchasing decisions, including, but not limited to:

- (1) futures prices at the time of purchasing decisions;
- (2) market price trends at the time of purchasing decisions;
- (3) market price forecasts at the time of purchasing decisions; and
- (4) nationwide storage levels, and the Company's own on-system storage levels, at the time of purchasing decisions."

Additionally, the Commission requested a data summary of all hedging transactions and the accounting entries for those transactions, which are attached and filed as part of this report.

Atmos Energy's Hedging Strategy

The Company's management, based upon its experiences the past four winters and direction from the Commission, developed the following set of parameters under which a hedging program would be initiated for the winter of 2004-2005. The parameters, as set forth below, were put into place before the first purchase was made.

- (a) Based on the Company's supply plan for the winter of 2004-2005 requirements, the Company would purchase financial hedging instruments to stabilize gas prices within a range of 0% up to 25% of its total requirements.
- (b) Generally, purchases would be made during the period following the Commission's July 20, 2004 Order in this Case and through the month of October 2004. This would allow the Company to weight the price across the projected purchase period. Following the Commission's guidance, the Company would use its judgment on market conditions and trends to adjust the timing and volumes of hedge instrument purchases. The Company would purchase futures contracts and possibly options on futures contracts to stabilize prices in a reasonable range, realizing that achieving the lowest price at any given time was not likely.
- (c) The Company determined that controlling price risk to prevent price spikes similar to those which were seen in the winters of 2000-2001 and 2002-2003 is the primary objective of its hedging policy. The Commission, in its Order in this Case acknowledges that the goal of a hedging program is "to provide insurance against an

event such as price spikes”, not necessarily the lowest cost. The futures contracts would allow the Company to set a fixed price which would hedge the price of natural gas this winter. The possible use of options contracts would fix an element of gas cost within a defined range establishing a “ceiling” and a “floor”. The combination of futures and options would provide the price protection for its customers which the Company was seeking at a reasonable cost.

- (d) 100% of all benefits or costs of any hedges would be flowed through directly to customers as gas costs. The Commission, in its Order in this Case, stated that since customers “receive the benefits realized through a hedging program, we continue to find that customers should bear the cost of such a program”.

Atmos Energy’s Purchasing Decisions

Exhibit A summarizes hedging transactions executed for the winter of 2004-2005 and includes forecasts of winter gas prices available at the time of the transactions. Market conditions and the forecasts summarized on the exhibit are discussed in more detail in the “Market Conditions” section of this report. The Company executed futures transactions during periods of rising price trends. Exhibit B provides a graphic summary of the NYMEX prices for the month of January 2005 during the summer period, and the points at which the Company executed futures transactions.

Market Conditions

Natural gas storage inventories ended the 2003-2004 winter withdrawal season at 1,014 Bcf, settling above the symbolically important 1 Tcf mark. The March 2004 storage balance stood in stark contrast to the prior year March balance of 735 Bcf, a historic low. On March 31, 2004, 982 combined onshore and offshore rigs were drilling for natural gas in the United States, nearing the record levels of the 2001 drilling boom.

These bearish fundamental factors were confronted by a daunting array of bullish concerns. Many industry observers expressed concerns that forecasts of a recovering economy, a warmer summer and a more active hurricane season relative to last year would undermine the ability to refill storage inventories by November 1st. These uncertainties were further fueled by the perception of an impending supply shortfall to meet the increased requirements of the industrial sector and anticipated electric generation demands. While drilling activity had increased substantially, the declining production rates of existing producing fields had also been evident. The result of these uncertainties was reflected in strong upward movement in gas prices and instability for the first several months of the injection season.

The upward movement in gas prices and increased volatility resulted in a significant increase in the premiums charged to purchase call options when compared to the purchase price of call options the previous year. Given the wide skew of call options premiums to put option premiums, costless collars were not as attractive as in prior years. For example in July 2004 the premium received for a January 2005 put floor of approximately \$5.75 would purchase a call ceiling of approximately \$10.00.

After receipt of the KPSC order on July 20, 2004 Atmos continued to actively monitor the market. Generally the January contract traded within a range of \$6.75 to \$7.10 from mid-July to mid-September. From mid-September through late-October natural gas futures staged a dramatic and unexpected climb to twenty month highs for all winter-month 2005 contracts. The January 2005 contract rose 52% from \$6.55 on September 16, 2004 to \$9.90 on October 26, 2004. For historical comparison, on October 31, 2003 the January 2004 contract closed at \$5.13. Reference Exhibit B of this report for actual trading range for NYMEX futures for January 2005. Industry analysts attributed the price increases to rises in the broad energy complex and to concerns about winter supplies relative to projected demand. Due to the dramatic and consistent price increases, the Company did not execute any further hedge transactions after mid-September 2004.

The bullish sentiment overwhelmed bearish fundamental factors, such as near record storage and rig count levels. On October 29, 2004 the American Gas Association reported total U.S. storage levels of 3,293 Bcf (approximately 94% full and nearing an all-time record high level). By comparison the prior five-year average was 3,054 Bcf. In the same week last year the reported storage level was 3,155 Bcf (approximately 90% full). 1,071 rigs were drilling for natural gas on October 22, 2004, an increase of 14 from the previous week and an increase of 127 from the prior year.

Winter 2004-05 Forecasts

Around the end of the first week of each month The Energy Information Administration of the U.S. Department of Energy publishes Short Term Outlook summarizing energy market conditions and activity. The price forecast is based on an econometric model employing numerous supply and demand variables. The table below summarizes EIA forecasts of estimated winter 2004-2005 spot natural gas prices.

WINTER 2004-05 FORECAST – EIA

Date	\$/MMbtu
August 2004	6.00 - 7.00
September 2004	6.00 - 6.75
October 2004	6.25 – 7.00

Referencing Exhibit B, NYMEX prices for January 2004 typically traded at prices higher than those forecast by EIA.

Impact of Atmos Energy Storage

The Company develops seasonal summer and winter supply plans which set its storage injection and withdrawal levels. Historically, Western has planned to inject on essentially a ratable basis, both Company storage and pipeline storage, across the

injection season (April through October). Withdrawals are similarly scheduled across the winter months, though weather patterns and deliverability are considered in the planned withdrawals. Therefore, the Company's storage levels during the summer and winter were not pivotal in its hedging purchase decisions.

**EXHIBIT A
ATMOS ENERGY CORPORATION
SUMMARY OF HEDGE TRANSACTIONS
WINTER 2004-05**

Date	Instrument	Contract Month	Future Pr	Option Floor	Option Ceiling	NYMEX Close Pr	Market Forecast *

Case No. 2004-00142

EXHIBIT B
NYMEX Natural Gas Futures
January 2005

\$/mmBtu

- Futures transactions executed under Atmos Energy Hedging program.

CONFIDENTIAL

Atmos Energy Corporation
Kentucky Division
Monthly Accounting Entries
